

Oversight Report for the 2016/2017 financial year

presented to Council on 28 March 2018

Mrs Mayor,

With the introduction of the Karoo Hoogland Council Oversight Committee / MPAC Committee, an expectation has been created whereby effect would be given to section 152 (1) (a) of our Constitution, namely to provide democratic and accountable government for local communities

The relationship between the IDP, Budget and Annual Report is well documented in National Treasury's MFMA Circular no. 11, which stated, "The IDP and Budget is forward looking, they set out what the municipality intends to do and the funds it will raise and spend. The Annual Report, on the other hand, is backward-looking as it reports on actual performance at the end of the financial year.

For the purpose of transparency and to the knowledge of all councillors and the public present today, I will table this report by means of a holistic approach for clarity purposes.

1) INTRODUCTION

- a) The 2016/2017 Annual Report was tabled to Council on the **30TH of January 2018** in compliance with the Municipal Finance Management Act (MFMA) which requires under Section 127(2) that:

- i) "The Mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality".

- b) When tabled, the annual report should include four main components, each of which has an important function in promoting governance and accountability.

The **main components** are:

- i) The annual performance report as required by section 46 of the MSA;
- ii) Annual Financial Statements submitted to the Auditor-General;
- iii) The Auditor-General's audit report on the financial statements in terms of Section 126 (3) of the MFMA; and
- iv) The Auditor-General's audit report on performance in terms of Section 45 (b) of the MSA.
- c) Section 129 of the MFMA requires the council to consider the annual reports of its municipality and to adopt an Oversight Report containing the council's comments on the annual report.

2) PURPOSE

- a) To submit the Oversight Report on the Annual Report of 2016/2017 in terms of Section 120 of the Municipal Finance Management Act, 2003, (MFMA).

3) BACKGROUND

- a) Council is vested with the responsibility to oversee the performance of their respective municipality, as required by the Constitution, The Municipal Finance Management Act (MFMA) and the Municipal Systems ACT (MSA). This **oversight responsibility** of council is particularly important for the process of considering annual reports.
- b) The MFMA and MSA recognise that **council has a critical role** to play to ensure better performance by municipal departments and entities. There exists an explicit linkage between the strategic goals, set by council through the IDP, which are translated into the budget, and the delivery of those goals, which is reported on in the Annual Report. It is important for council to ensure that the budget gives effect or expression to priorities contained in the IDP. A good budget will lay a basis for better oversight and cement the contracts between the executive/council, the administration and the public.
- c) The MFMA gives effect to financial management reforms that place greater service delivery responsibilities on managers and makes them more accountable for performance. Whilst, in the first instance it is left to the mayor to resolve any performance failures, ultimately the council is vested with the power and responsibility to oversee both the executive and administration. However, Performance failures can only be met when definite targets have been set. This area will need more in depth attention in the 2017/2018 year.
- d) The following are **strategic objectives** which are aligned to Organisational Performance management and also objectives which should enjoy more attention in the coming year:
- i. To monitor the implementation of the IDP (Integrated Development Plan)
 - ii. To monitor the effectiveness and efficiency of service delivery
 - iii. To achieve the organizational transformation
 - iv. To promote accountability
 - v. To create a performance culture
 - vi. To designate decision regarding alternative service delivery mechanisms
 - vii. To manage performance in a consultative, supportive and non-discriminatory way.
 - viii. To provide guidelines for the evaluation of the Karoo Hoogland Municipality's performance
- e) The separation of roles between the council and administration is intended to strengthen the oversight functions of councillors. Good governance and effective oversight and accountability are predicated on the separation of functions. It is fundamental for the achievement of the objectives for local government in the Constitution relating to a democratic and accountable system of local government.
- f) Council oversees the performance of the administration through council and committee meetings.

- g) In terms of a Council Resolution dated **6 March 2017**, such an Oversight Committee/MPAC Committee was established in terms of Section 79 of the Structures Act, 1998, to review the Annual Reports of the Council and prepare an Oversight report on the Annual Reports.
- h) In terms of a follow-up Council Resolution dated **29 August 2017**, the Mayor appointed new members on the Oversight Committee/MPAC Committee and they had their first meeting on **14 November 2017** where Provincial Treasury assisted with compliance issues and an action plan.
- i) The Council's 2016/2017 Annual Report was tabled to Council on **30 January 2018** in terms of Section 127 (2) of the MFMA, and was made public in terms of Section 127 (5) of the MFMA on **2 February 2018**. *No comments or input from the community was received by 2 March 2018.*
- j) The Annual Report 2016/2017 was referred to the Oversight Committee for deliberation. In dealing with the tabled Annual Report, Council is required to adopt an Oversight Report by not later than **two months from date of tabling**, which for the 2016/2017 Annual Report, will be 30 March 2018.
- j) Mrs Mayor, the Oversight Report for 2016/2017 is the final major step in the annual reporting process of a municipality. Section 129 of the MFMA requires the council to consider the annual reports of its' municipality and adopt an oversight report containing the council's comments on each of the following statements:
 - 1) **Council has approved the annual report with or without reservations;**
OR
 - 2) Council has rejected the annual report;
OR
 - 3) Council has referred the annual report back for revision of those components that can be revised.
- k) The oversight report is thus clearly distinguished from the annual report. The annual report is submitted to the council by the **accounting officer and the mayor** and is part of the process for discharging accountability by the executive and administration for their performance in achieving the goals set by council.
- l) The oversight report is a report of the **municipal council** and follows consideration and consultation on the annual report by the council itself.
- m) Thus the full accountability cycle is now completed and the separation of powers is preserved to promote effective governance and accountability.

4) OVERSIGHT REPORT INCLUDES:

Mrs Mayor, included in our Oversight Report, we have attached all relative documentation, including the Minutes of the MPAC/Oversight Committee, the Annual Report Checklist, as per MFMA Circular 32, the Response and Action Plan applicable to all disclaimers as defined in the Auditor-General's Report.

5) THE OVERSIGHT COMMITTEE

- a) The appointment and compilation of the Council's MPAC/Oversight Committee on 29 August 2017, has been done according to Section 127(3) of the Municipal Finance Management Act and in terms of section 79 of the Municipal Structures Act.
- b) The MPAC/Oversight Committee comprises of the following members:
 - A. Councillor JE Davids (Chairperson)
 - B. Councillor J Jooste
 - C. Councillor AM Januarie

The Oversight Committee (MPAC) scheduled a meeting to take place on 16 March 2018 but due to the fact that the Mayor (Councillor VC Wentzel) was a member of the committee and as per the Terms of Reference the Mayor may not be part of this Committee – the meeting was postponed until 27 March 2018 for the Chairperson and other members to go through legislation as to the establishment and constituency of the MPAC and verify whether the Mayor may serve on this committee. The Mayor may not be part of this Committee and therefor Council should appoint another member to this Committee.

6) THE FUNCTIONS OF THE OVERSIGHT COMMITTEE:

- a) Undertake a review and analysis of the Annual Report.
- b) Invite, receive and consider inputs from Councillors and Portfolio Committees, on the Annual Report.
- c) Consider written comments received on the Annual Report from the public consultation process. (None)
- d) Conduct Public Hearing(s) to allow the local community or any organs of state to make representations on the Annual Report.
- e) Preparation of the draft Oversight Report, taking into consideration the views and inputs of the public, representative(s) of the Auditor General, organs of states, Council's Audit Committee and Councillors.
- f) Receive and consider Council's Audit Committee views and comments on the annual financial statements and the performance report. *It is worth mentioning that the Shared Audit Committee Services with Hantam Municipality ended on 28th August 2017. Therefore at the time of receipt of the AG report in December 2017 and at the tabling of the Annual Report 2016/2017 to Council – No Audit Committee of Karoo Hoogland was operational nor any Internal Audit Unit existed. However, since December 2017 and January 2018 an SLA was concluded with the District Municipality for Shared Internal Audit Services as well as Shared Audit Committee Services. An Internal Audit Operational Plan was developed and approved by Council in January 2018.*

The Audit Committee met on 22 March 2018 and the Internal Audit Unit already submitted their first report. No Recommendations have yet been received from the Audit Committee on the Annual Financial Statements or the Performance Report. However, the Audit Committee submitted their first report which will be tabled and presented to Council on 28 March 2018.

7) 2016/2017 ANNUAL REPORT CONSULTATION PROCESS

- a) The communities were advised, through the printed media and the Municipal website of the availability of the annual report at all the municipal offices.
- b) The annual report was available at all Municipal Libraries and identified offices. The annual report was also submitted to the Auditor General, National Treasury and Provincial Treasury and CoGHSTA.
- c) At the closing date for public submissions, no submissions were received and therefore no Public Hearing was necessary.

8) SUMMARY OF COMMENTS ON THE 2016/2017 ANNUAL REPORT

- a) The MPAC/Oversight Committee discussed the 2016/2017 Annual Report at the following meetings:
 - i) **16 March 2018 (postponed)**
 - ii) **27 March 2018**
- b) In this meeting, the Annual Report for 2016/2017 together with the Auditor General's basis of a **qualified opinion** were discussed.
- c) A Guidance report (Audit Action Plan for 2016/2017) has been compiled on matters that should be considered by council and administration to rectify the qualification and basis of disclaiming opinions of the Auditor General to prevent any recapitulated reservations and/or possible disclaimers in the future.
- d) In order to approve the annual report without reservations, Council should be able to agree that the information contained in the report is **a fair and reasonable record of the performance of the municipality and properly accounts** for the actions of the municipality in the financial year reported upon. Approval means the executive and administration have discharged in full, their accountability for decisions and actions and that their performance meets the criteria set by performance objectives and measures and is also acceptable to the community. It is however again emphasized that **no performance management system was in place** and only compliance were measured in 2016/2017. The rectification of the SDBIP and performance measuring of personnel, the organisation and their service providers will be addressed and prioritized during 2017/2018 and furthermore into 2018/2019. **THEREFORE IT WILL NOT BE POSSIBLE TO APPROVE THE ANNUAL REPORT WITHOUT RESERVATIONS.**

- e) To promote continuous improvement in the performance of the municipality, it is strongly recommended that council reward performance of the municipal manager and the managers directly accountable to the municipal manager in a manner that is commensurate with achievement of policy outcomes and in a manner which will encourage them to keep on performing. Therefore, the payment of performance bonuses should be measurable with the extent of outcomes achieved. This can only be achieved if accurate and measurable targets are set, monitored and measured as well as performance agreements are in place. Where reservations exist, the seriousness of such should be taken into account before considering any part-payment of bonuses.

9) SUMMARY OF COMPONENTS OF THE OVERSIGHT REPORT

- i. The Audited Annual Financial Statements.
- ii. The Auditor General's Report on the financial statements.
- iii. The Auditor General's Report on the Performance Measurement of Karoo Hoogland Municipality and the problem with the linkage and measuring of performance as well as the Auditor General's Opinion that he did not raise an opinion with regard to the Annual Performance Report due to missing deliverables, priorities and objectives.
- iv. The Recommendations of the Audit Committee was not attached as no Audit Committee existed/was appointed at that time. However, it is the view of the Oversight Committee that the newly appointed Audit Committee be requested to submit their recommendations on the Annual Financial Statements and the performance of the municipality by 20 April 2018 for Council to be able to also address the recommendations.
- v. Disclosures and additional information, as detailed in the annual report checklist.
- vi. Copies of the audited financial statements were submitted to officials for their comments.
- vii. MPAC/Oversight Committee questions of clarity and responses from officials.
- viii. Reservations, recommendations and action plans. (*Audit Action Plan 2016/2017 serve as list of **Reservations** with the actions which will be monitored*)
- ix. Copies of minutes of meetings of committee.
- x. Report by the MPAC Chairperson submitted to the Audit Committee in March 2018.
- xi. MPAC/Oversight Committee Action Plan and activity schedule.

10) CONCLUSION

- a) Mrs Mayor, the committee concludes that despite the significant improvement in the Annual Report and the Annual Financial Statements, improvement is still needed in certain areas as stipulated by the Auditor-General and particularly in the Risk Management area, Internal Audit Unit Reporting area, Asset Management areas of council as well as urgent attention to the Performance Reporting and the compliant compilation of the SDBIP.
- b) The Committee thanks all the committee members for their constructive input during the oversight period, the Auditor-General and the Audit Committee for their support and co-operation in completing this Oversight process which has resulted in this Oversight Report with the exception of the outstanding recommendations from the Audit Committee.

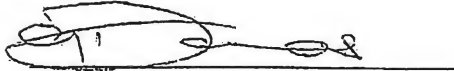
- c) The Committee thanks the district municipality for availing the Shared Services with regards to **Internal Auditing** and the skills which will be transferred to our personnel to report to the Audit Committee. The Committee wishes to emphasize that the sustainable assistance will be greatly appreciated.
- d) The Committee also requests urgent response from the Auditor General with regard to guidelines as to how MSCOA will be audited on the 2017/2018 financial year and what the effect will be on compliance with new versions being circulated by National Treasury on the MSCOA as well as the upload of strings by due dates.
- e) The committee also wish to request the current members of MPAC/Oversight and the future members to do their oversight earlier in a financial year so that the Annual Report can be submitted by November 2018 and that the Oversight Report be submitted to Council by January 2019 so that the administration have enough time to correct and implement measures to address the outcome of the Audit. As it is now a challenge to addresses the issues and recommendations in only 3 months before the financial year end.
- f) The committee is honoured for the opportunity to be of service to Karoo Hoogland Municipality.

11) RECOMMENDED RESOLUTION TO BE ADOPTED BY COUNCIL, IN ACCORDANCE WITH MFMA SECTION 129(1):

- a) That cognisance be taken of the Oversight Report on 2016/2017 Annual Report, as submitted by the MPAC/Oversight Committee together with the recommended corrective actions as set out in the Audit Action Plan 2016/2017 which will serve as the reservations for the purpose of this report;
- b) That Council, having fully considered the annual report of the municipality for the 2016/2017 financial year and the Auditor General's representations thereon, adopts the Oversight Report 2016/2017;
- c) **That Council adopts and approves the 2016/2017 Annual Report with reservations;**
- d) **That Council take note that for the purpose of the above mentioned reservations the Audit Action Plan for 2016/2017 will serve as comments and reservations;**
- e) **That the Committee attach the Audit Action Plan of 2016/2017 as Annexure to the Oversight Report to serve as the reservations mentioned in (C) above with specific reference to the Performance management and measuring through the SDBIP and Annual Performance Report;**
- f) That Council take note that the Recommendations of the Audit Committee on the AFS and the performance of the municipality are still outstanding due to the non-existence of an Audit Committee from September 2017 until January 2018, but that they are still requested to make their recommendations by 20 April 2018 and that these recommendations be addressed by the MPAC/Oversight Committee and Council during May 2018;

- g) That the Oversight Report be made public in accordance with Section 129(3) of the Municipal Finance Management Act, 56 of 2003.
- h) That the Oversight Report on the Annual Report 2016/2017 be submitted to the provincial legislature in accordance with Section 132(2) of the Municipal Finance Management Act, 56 of 2003.

Thank You



Councillor JE Davids

Chairperson : MPAC/Oversight Committee of Karoo Hoogland Municipality

AFTER ADOPTION BY COUNCIL THIS REPORT MUST BE SIGNED :

DATE OF ADOPTION BY COUNCIL : 28-03-2018



SIGNED BY MUNICIPAL MANAGER

DATE: 28 MARCH 2018



SIGNED BY THE MAYOR

DATE: 28 MARCH 2018